

**REPORT OF THE AUDIT OF THE
OLDHAM COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
OLDHAM COUNTY SHERIFF

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Oldham County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$1,195,975 from the prior year, resulting in excess fees of \$1,252,968 as of December 31, 2014. Receipts decreased by \$71,046 from the prior year and disbursements decreased by \$1,267,021.

Report Comments:

- 2014-001 The Sheriff Had A Known Deficit Of \$5,102 In His Official 2014 Fee Account
- 2014-002 The Sheriff Did Not Record And Deposit All Cash Receipts In The Fee Account As Required By State Law
- 2014-003 The Sheriff Did Not Charge The Correct Fee For CCDW Photos And Waived Fees For Fingerprinting
- 2014-004 The Sheriff Did Not Ensure All Disbursements Were Allowable And Had Sufficient Documentation
- 2014-005 The Sheriff Lacked Internal Controls Necessary To Ensure Accurate Financial Reporting

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Sheriff of Oldham County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable David Voegele, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the Oldham County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Oldham County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable David Voegelé, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Sheriff Had A Known Deficit Of \$5,102 In His Official 2014 Fee Account
- 2014-002 The Sheriff Did Not Record And Deposit All Cash Receipts In The Fee Account As Required By State Law
- 2014-003 The Sheriff Did Not Charge The Correct Fee For CCDW Photos And Waived Fees For Fingerprinting
- 2014-004 The Sheriff Did Not Ensure All Disbursements Were Allowable And Had Sufficient Documentation
- 2014-005 The Sheriff Lacked Internal Controls Necessary To Ensure Accurate Financial Reporting

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

December 14, 2015

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	61,274
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State Fees For Services:

Finance and Administration Cabinet	\$ 95,445	
Sheriff Security Service	22,402	117,847

Circuit Court Clerk:

Fines and Fees Collected		4,381
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Fiscal Court		67,166
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County Clerk - Delinquent Taxes		69,777
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Commission On Taxes Collected		1,478,587
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Fees Collected For Services:

Auto Inspections	19,115	
Accident and Police Reports	347	
Serving Papers	87,025	
Carrying Concealed Deadly Weapon Permits	21,060	
Carry Concealed Deadly Weapon Photos	8,255	135,802

Other:

Add-On Fees	88,698	
Return Check Fees Collected	150	
Miscellaneous	9,752	98,600

Interest Earned		1,458
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Borrowed Money:

State Advancement		360,000
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Total Receipts		2,394,892
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The accompanying notes are an integral part of this financial statement.

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 299,347
Part-Time Salaries	43,206
Other Salaries	20,439
Overtime	61
KLEFPF	23,250

Employee Benefits-

Employer's Share Social Security	29,698
Employer's Share Retirement	19,589
Employer's Share Hazardous Duty Retirement	96,168
Employer Paid Health Insurance	53,915

Contracted Services-

Vehicle Maintenance and Repairs	13,411
Radio Maintenance/Equipment	1,593

Materials and Supplies-

Office Materials and Supplies	6,046
Uniforms	5,181
Computer/Technology	3,026

Auto Expense-

Gasoline	32,246
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Other Charges-

Transport Prisoners	8,628
Fiscal Court Civil Papers	9,300
Postage	300
Bond	110
Training	316
Interest to School Board	713
Miscellaneous	13,149

Capital Outlay-

Office Equipment	<u>3,240</u>	\$ 682,932
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The accompanying notes are an integral part of this financial statement.

OLDHAM COUNTY
 STEVEN SPARROW, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements (Continued)

Debt Service:

State Advancement	<u>\$ 360,000</u>
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Total Disbursements	<u>\$ 1,042,932</u>
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Less: Disallowed Disbursements	<u>4,648</u>
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Total Allowable Disbursements	<u>1,038,284</u>
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Net Receipts	1,356,608
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Less: Statutory Maximum	<u>99,730</u>
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Excess Fees	1,256,878
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Less: Training Incentive Benefit	<u>3,910</u>
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Excess Fees Due County for 2014	1,252,968
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Payments to Fiscal Court - Monthly July through December 2014	1,099,180
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January 13, 2015	<u>148,686</u>	<u>1,247,866</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 5,102</u></u>
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The accompanying notes are an integral part of this financial statement.

OLDHAM COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OLDHAM COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

Beginning July 1, 2014, the Oldham County Sheriff participated in a fee pooling system with the Fiscal Court. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due to the taxing districts. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays almost all operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent for the first six months and 34.31 percent for the last six months.

The Sheriff's contribution for calendar year 2012 was \$328,450, calendar year 2013 was \$339,150, and calendar year 2014 was \$115,757.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

OLDHAM COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System (Continued)

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Oldham County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Oldham County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

OLDHAM COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 4. Lease Agreements

The Sheriff was committed to the following lease agreements as of December 31, 2014:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Principal Balance December 31, 2014
Desktop Mailing System	\$ 117	48 months	2/28/16	\$ 2,546
Copier	215	36 months	8/31/15	1,718
				<u>\$ 4,264</u>

Note 5. Special Accounts

A. Forfeiture/Reserve/Donation Special Account

The Sheriff has a bank account that is used for the following purposes:

- Forfeited Funds – to receive funds forfeited in criminal cases by court order; disbursements are made for general law enforcement.
- Donations For Child ID Program – to receive donations from the community for Child ID activities; disbursements are made for supplies for the program.
- Sheriff's Reserve Account – to receive payment for security services and traffic control services provided by Sheriff's deputy reserves; disbursements are made to provide reserves with uniforms and equipment, and other general law enforcement.

The beginning balance of the account on January 1, 2014 was \$13,087. During 2014, \$923 in forfeited funds was received, \$1,075 in donations was received for the Child ID program, \$5 interest was received, and \$1,234 was received for services provided by deputy reserves. During 2014, \$9,375 was spent on law enforcement purposes, and \$2,390 was spent for Child ID supplies. The ending balance at December 31, 2014 was \$4,559.

B. Grant/Asset Sharing Special Account

The Sheriff has a bank account that is used to record grant receipts and disbursements as well as asset sharing receipts and disbursements. The beginning balance of the account on January 1, 2014 was \$1,375. During 2014, less than \$1 in interest was received, \$1,375 was spent for law enforcement purposes, and the ending balance was \$0.

Note 6. Fee Pooling Mid Year

Because the Sheriff began fee pooling mid way through fiscal year 2014, the financial statement includes direct disbursements made by the Sheriff for the period of time consisting of January 1, 2014 through June 30, 2014. On July 1, 2014, the Sheriff began turning over receipts to the fiscal court on a monthly basis, as required, and the fiscal court processed disbursements on behalf of the Sheriff.

OLDHAM COUNTY
STEVEN SPARROW, COUNTY SHERIFF
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2014

Assets

Cash in Bank	\$ 48,796
Receivables:	
December tax commissions	<u>99,904</u>
Total Assets	148,700

Liabilities

Paid Obligations:		
Board of Education - Interest	\$ 14	
December 2014 Excess Fee Payment	<u>148,686</u>	
Total Paid Obligations	\$ 148,700	
Unpaid Obligations:		
Excess Fees Due Fiscal Court	<u>5,102</u>	
Total Unpaid Obligations	<u>5,102</u>	
Total Liabilities		<u>153,802</u>
Total Fund Deficit as of December 31, 2014		<u><u>\$ (5,102)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Voegele, Oldham County Judge/Executive
The Honorable Steven Sparrow, Oldham County Sheriff
Members of the Oldham County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Oldham County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated December 14, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Oldham County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Oldham County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Oldham County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-005 to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Oldham County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-004, and 2014-005.

County Sheriff's Responses to Findings

The Oldham County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

December 14, 2015

COMMENTS AND RECOMMENDATIONS

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Sheriff Had A Known Deficit Of \$5,102 In His Official 2014 Fee Account

The Sheriff did not deposit all funds received and spent funds on unallowable items resulting in a deficit in the 2014 fee account. As discussed in more detail in other findings in this report, the deficit was caused by receipts and disbursements handled as cash outside the bookkeeping system and bank account. The Sheriff did not deposit cash received for CCDW photos, non-sufficient fund fees, finger printing fees, and accident report fees. There was also an unallowable credit card purchase of \$41 and unallowable cash disbursements totaling \$4,607. Undeposited cash receipts of \$10,762 less cash found in safe of \$1,900, less cash used for disbursements of \$3,801, less cash used for unallowable items of \$4,607, leaves \$454 in missing receipts. The Sheriff did not have sufficient oversight and internal controls in place to prevent this activity. Because of this, the Sheriff's accounting records were incomplete, and personal funds are required to alleviate the deficit.

KRS 64.100 states, in part, "Each sheriff shall keep an accurate account of all fees collected by him from all sources." Good accounting practices require sufficient accounting records and daily deposits to ensure the fee account is being managed appropriately. Sufficient oversight by the Sheriff is necessary to ensure all laws and regulations, as well as good accounting practices, are followed.

We recommend the Sheriff deposit personal funds of \$5,102 to cover the deficit for calendar year 2014. We are referring this matter to the Office of the Attorney General for further investigation.

Sheriff's Response: This practice has been discontinued and all remaining funds have been deposited into the fee account. Funds received for accidents reports, CCDW's and photographs are now entered into our daily transaction system.

2014-002 The Sheriff Did Not Record And Deposit All Cash Receipts In The Fee Account As Required By State Law

The Sheriff had at least \$10,762 in cash receipts collected by his office that were not recorded in the fee account receipts ledger nor deposited into the bank account from October 4, 2013 through July 17, 2015. Auditors calculated this amount by reviewing the manual cash receipt books that were available. However, cash could have been collected where no receipt was prepared or maintained, suggesting that this total could potentially be higher. Further, receipts used to record auto inspections performed off-site by deputies or by the Clerk's office were not always included in the daily deposit, were not used in order, and were not all maintained, limiting the auditor's ability to determine if all were handled properly.

The Sheriff's office did not record or deposit any collections during the period noted for funds collected for Concealed Carry of Deadly Weapons (CCDW) photos (\$5 or \$10 each, depending on the amount the Sheriff charged at the time (see Finding #3)); accident reports (\$5 each); fingerprinting fees (\$10 each) and non-sufficient funds (NSF) fees (\$50 each). There were additional receipts noted where the source could not be determined from available documentation and some receipts for auto inspections performed off-site that could not be traced to the daily checkout sheet.

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Sheriff Did Not Record And Deposit All Cash Receipts In The Fee Account As Required
By State Law (Continued)

This practice of not booking or depositing all receipts appears to have been continued as a means to provide cash for expenditures that would be made outside the fee account, including expenditures for unallowable items. Auditors determined that cash in the deposit was routinely traded out for checks that were written for the fees listed above. This resulted in deposits not being made intact daily.

During fieldwork, auditors became aware of the activity and advised the Sheriff's staff to immediately begin recording and depositing all receipts daily. The only record available for calendar year 2013 was the final receipt book, which also contained the beginning of calendar year 2014. According to the Sheriff's bookkeeper, all previous records for these transactions could not be located as it was a routine practice to destroy these receipt books at year end. Likely, additional cash receipts were collected prior to October 4, 2013 but could not be determined due to the lack of records. It is unclear how long the Sheriff's office has failed to deposit all funds intact.

KRS 64.100 states, in part, "Each sheriff shall keep an accurate account of all fees collected by him from all sources." According to KRS 64.840, the Sheriff should issue a receipt for any fine, forfeiture, tax or fee paid in cash, in person, or by mail if requested by the payee. One copy should be given to the payee, one should be retained by the Sheriff for his own records, and one should be placed with the daily bank deposit.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual* require that deposits be made daily and intact.

We recommend the Sheriff immediately implement policies and procedures requiring staff to record and deposit all funds collected by his office. All transactions should be entered into the computerized receipt system, generating a receipt copy for the customer and one to be batched for the daily deposit. The receipts batched should agree to the cash and checks deposited each day. Manual receipts should only be used for auto inspections completed off-site by deputies or by the Clerk's office. The Sheriff should provide a receipt to the Clerk when auto inspection payments are given to his office by Clerk's deputies, noting the date, amount, and number of inspections. All funds should be deposited intact and unaltered, in whatever payment form the customer used. The Sheriff should ensure these procedures are followed by either providing direct oversight of office staff or assigning a senior deputy to oversee the receipts process. Documentation of this oversight should be maintained and could include the Sheriff's or senior deputy's initials and date on daily checkout sheets and deposit tickets.

Sheriff's Response: This practice has been discontinued and all remaining funds have been deposited into the fee account. Funds received for accidents reports, CCDW's and photographs are now entered into our daily transaction system.

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Sheriff Did Not Charge The Correct Fee For CCDW Photos And Waived Fees For Fingerprinting

Based on available receipt records, from October 4, 2013 through June 30, 2014, the Sheriff charged \$10 for CCDW photos. It is likely \$10 was also charged prior to October 4, 2013, but records were not available to auditors to confirm this. From July 1, 2014 through June 30, 2015, \$5 was charged for CCDW photos. The Sheriff again began charging \$10 on July 1, 2015 and continued through July 9, 2015 when the auditor advised the office staff that the correct fee of \$5 should be charged consistently to every taxpayer. Also, the Sheriff did not charge the \$10 fee for fingerprinting to everyone receiving the service. According to the Sheriff, he waived the fingerprinting fee for Oldham County residents.

The Sheriff's office staff said the reason for increasing the CCDW photo charge in 2015 was due to extra paperwork required by the state which increased the Sheriff's costs. No reason was given for the increases in 2014 or 2013. Fingerprinting fees were waived as a benefit to residents of Oldham County. The effects of this inconsistency in the application of fees are:

- Many taxpayers paid twice the legal amount for the CCDW photo service.
- The county did not receive the revenue that would have been generated by the fingerprinting fees.

According to KRS 64.090(1)(bb) and (cc), Sheriffs may charge a fee of (\$10) per set of fingerprint impressions taken and five dollars (\$5) per photograph taken or copied when those services are requested by a person for professional, trade, or commercial purposes or for personal use. In section (2) of KRS 64.090, the Sheriff is directed to either charge \$40 for any service where no fee is set or charge the amount set by statute, if one has been set. According to KRS 70.095, the Sheriff may only increase these fees "[i]f the Department of Kentucky State Police sets new fingerprinting and photograph fees under the provisions of KRS 16.068...."

We recommend the Sheriff charge the correct fee for services where fees are allowed by statute. We further recommend the Sheriff charge the fee to everyone requesting the service.

Sheriff's Response: Correct amount will be charged for photographs. The statute with regard to fingerprints does not mandate a charge but allows the agency to charge up to \$10.00. Effective 01/01/16 the Oldham County Sheriff's Office will begin charging \$10.00 for fingerprints.

Auditor's Reply: The Sheriff should choose to charge or not charge for finger printing and apply the fee consistently among all customers.

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The Sheriff Did Not Ensure All Disbursements Were Allowable And Had Sufficient Documentation

The following issues were noted during disbursements testing:

- Sales tax was paid on lease payments and cash purchases.
- Three credit card purchases did not include itemized restaurant receipts.
- An invoice dated 10/28/13 was paid in January 2014 from the 2014 fee account.
- One credit card purchase did not have any supporting documentation available for review.
- Alcohol totaling \$41, including tax, was purchased on one restaurant receipt, without evidence of reimbursement.

Further, receipts totaling \$4,607 maintained for cash purchases made during calendar year 2013, calendar year 2014 and through July 2015 were primarily for items that would not meet the criteria for fee account disbursements. Receipts were included for:

- Clothing/shoes purchased at retail stores: receipts were not specific enough to determine whether the clothing/shoes would be necessary for employees' work.
- Snack and lunch type foods.
- A cake, food platter and other party supplies.
- Various kitchen supplies.
- Floral arrangements.

The Sheriff did not provide sufficient direct oversight and monitoring of the disbursements process leading to payment for some purchases that were unallowable, unnecessary, and unsupported. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Good accounting practices dictate that every disbursement receive sufficient review and approval by someone knowledgeable about allowable purchases with fee account funds. Further, sufficient supporting documentation should be maintained for every purchase. Since the Sheriff's office is sales tax exempt, the Sheriff should not pay sales tax on the lease contract. The Sheriff should not have made cash purchases. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The minimum requirements for handling public funds as stated in the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual* require disbursements by check only.

As the Sheriff is now fee-pooling and the fiscal court processes all disbursements, there will be no disbursements paid directly from the fee account; however, the Sheriff should ensure all purchases made for the office are necessary for the running of the office, adequately supported with detailed receipts, reasonable in amount, beneficial to the public, and not personal in nature.

Sheriff's Response: In the future this will be closely monitored to ensure no sales tax are paid and that itemized receipts are obtained where required and that unauthorized purchases are not made. This has been corrected with the inception of fee pooling that began in July 2014.

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-005 The Sheriff Lacked Internal Controls Necessary To Ensure Accurate Financial Reporting

The following issues were present during calendar year 2014:

- The fourth quarterly report did not agree to the accounting ledgers. Disbursements per the disbursements ledger exceeded disbursements per the fourth quarterly report significantly. The difference was primarily due to the recording of payroll disbursements in ledgers after the Sheriff started fee pooling on July 1, 2014, when all payroll was paid by the fiscal court.
- Documentation was not available to support the totals used on the fourth quarterly report. Totals per certain categories on the fourth quarterly report could not be traced to underlying accounting records. After the fourth quarterly report was prepared, documentation used to combine and adjust categories was not maintained, and could not be located.
- Monthly fee pooling payments did not include all net income and net fees for the preceding month. The Sheriff paid the checkbook balance at the end of the month to the County Treasurer for monthly net fees. The Sheriff should have reconciled the bank account first, then paid the balance to the Treasurer. Because some receipts in the bank account were electronic and were not recorded in the checkbook before the reconciliation, fees were underpaid for five months. All net fees were eventually paid, as they were included in the subsequent monthly payment.
- Not all copies of voided receipts were maintained, and manual receipts could be misnumbered. We noted that only the yellow copy of voided receipts was maintained in the files for most of the voids. Manual receipts, which were only used until the computerized system was put into place, were stamped with a receipt number. We noted two manual receipts with the same receipt number, indicating an error had been made during preparation of these receipts.
- Two disbursement checks with the same check number cleared the bank to two different payees. Check numbers were printed on blank check paper by the check writer software. Internal controls failed to prevent or detect this error.
- Some disbursements were made by cash. See Finding #4
- Not all receipts were deposited. See Finding #2

The Sheriff relied too heavily on accounting staff and did not provide sufficient oversight of accounting and reporting functions. Because the Sheriff is not providing adequate oversight in this area, undeposited receipts and accounting and reporting errors were discovered by the auditor. By not ensuring sufficient oversight and internal controls, the risk of material financial statement misstatement is increased.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual*, the Sheriff is required to issue three-part receipts for every transaction, maintain all copies of voided receipts, deposit all funds intact daily, prepare quarterly reports that accurately reflect all activity for the previous quarter, and make disbursements by check only. County Ordinance 14-120-075 requires the Sheriff to pay net income and net fees to the County Treasurer no later than the tenth of the month for the preceding month. Strong internal controls over accounting functions and financial reporting are needed in order to insure accurate reporting and processing of revenues and disbursements.

OLDHAM COUNTY
STEVEN SPARROW, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-005 The Sheriff Lacked Internal Controls Necessary To Ensure Accurate Financial Reporting
(Continued)

We recommend the Sheriff ensure sufficient supporting documentation is maintained for all transactions. We further recommend the Sheriff implement internal controls to ensure accurate and timely processing of all receipts and disbursements and provide oversight of accounting functions and financial reporting.

Sheriff's Response: Most of the comments relative to these issues were before fee pooling and since fee pooling has been corrected. With regard to the duplicate receipt numbers, this was an error on the part of the printer. This will be closely monitored in the future.

